



Rebuilding U.S. Animal Industries

Chris Hurt

Department of Agricultural Economics
Purdue University

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Everyone is familiar with the phrase, "What goes up must come down!" Grain prices seem to be following this old axiom, with substantial questions remaining of "how far down?" For U.S. animal product consumption the phrase could be reversed, "What goes down must come up!"

How much did meat consumption "go down?" In 2007, meat consumption per person in the U.S. was 219 pounds for the big four of beef, pork, chicken, and turkey. Current USDA estimates for this year are down to 199 pounds per person, nearly a ten percent decrease in seven years. Out of the 20 pound total reduction, beef was down 11 pounds, pork was down five pounds, and chicken and turkey were down about two pounds each. In percentage terms consumption of beef has been down 17 percent, followed by 10 percent for both pork and turkey and a more modest three percent for chicken.

Why would U.S. consumers be eating so much less meat? Some argue that diets have changed and U.S. citizens have made lifestyle changes that include less meat and that the new norm will be the current smaller per capita levels of consumption. There is probably some truth to the lifestyle change hypothesis, but three other factors are more important.

The first of these is that retail meat prices had to rise sharply for animal producers to cover the much higher costs of feed from the 2006 to the 2012 crops. When feed prices rose, animal producer returns dropped toward losses. Over a period of years, those losses caused some liquidation of herds, which in turn reduced supply and increased consumer prices. Retail prices of beef and pork in 2014 are about 40 percent higher than in 2007. This rate of increase was about five percent per year, far above the general inflation rate. People simply eat less meat when prices rise quickly. Retail chicken prices, in contrast, were up a far smaller 18 percent since 2007.

High feed and forage prices forced a national beef cow reduction of 12 percent from 2007 to 2014. In addition to high feed costs, Southern Plains producers had the additional problem of widespread drought. As a result of the double-whammy, producers liquidated 21 percent of the beef cows in that region, which is the largest production region.

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A third critical factor reducing U.S. consumption of meats is related to domestic and foreign incomes. Domestic incomes were under pressure in the financial crisis of late-2008 and 2009 setting off the “Great Recession” from which employment and consumer incomes are just now recovering. While U.S. consumers were under pressure, incomes in developing countries were rising. This caused U.S. meat exports to rise, pitting foreign consumers against domestic consumers for the limited U.S. meat supplies. The next era for animal industries will be one of rebuilding herds and flocks. This will be a multiple-year process and will be characterized as a role reversal for the crops sector and the animal sector. If the years from 2007 to 2013 could be described as the “Grain Era” in which crop sector incomes had an extraordinary run, the coming period may be described as the “Animal Era” when producers of animal products have strong returns. During the “Grain Era” some resources like pasture land and forage production were converted to cash crop production. In the coming “Animal Era” there will be some incentive to convert cash crop land back to animal industry use. This will be most predominant for the marginal cash crop lands of the central and western Great Plains.

The three important causes of declining per capita consumption are shifting from negative to positive drivers. Feed prices are much lower, drought continues to abate in the Southern Plains, and the U.S. economy continues a slow but steady process of bringing more families back into the work force. So, how much of the 20 pound per person reduction in meat consumption will the animal industries recover in coming years? The answer depends on the magnitude of the changes in the drivers. As an example, 219 pounds of meat consumption per person was based on a period when corn prices averaged about \$2 a bushel and soybean meal \$200 a ton. As feed prices re-set in the coming era, few believe feed prices will drop back to those low levels. Given current expectations for feed prices in coming years, a recovery of 10 to 12 pounds of the lost 20 seems like a reasonable estimate. This would mean a recovery from 199 pounds to near 210 pounds.

The animal industries finally have a positive multiple-year outlook. The favorable income prospects will be based on feed prices re-setting to lower levels, continued reductions in drought affected pastures, and to strengthening domestic incomes. Animal industries are expected to be in a mini-boom phase in coming years lead by rising per capita consumption, continued small growth in U.S. population, and growing export demand. An important determining force of how big the boom will be will depend to what level feed prices re-set?

This mini-boom phase for animal agriculture will be economically supportive to rural communities with strong animal populations. It will also stimulate economic activity in industries that supply, market, and process animal products including animal buildings and equipment, animal feed, haying and forage equipment, animal pharmaceuticals, and lending for animal expansion.

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